# PITCHPOINTS

T. Rowe Price
INVEST WITH CONFIDENCE

## Are auto-plan features doing more harm than good? The difference is in the details.

Widespread adoption of auto-plan features has begun to turn the tide of participant inertia—helping participants who take no action become better positioned for retirement. But recent research, and analysis by T. Rowe Price, suggests there is still room to improve how these features are used.

### RESEARCH RECAP: Widespread adoption of auto-plan features

As of 2011:[1]

- 45.9% of plans had automatic enrollment
- Of those plans, 81.7% used it for new hires only
- 18.3% used it for all nonparticipants
- The most common default deferral rate was 3%
- 55.2% of plans automatically increased deferrals over time

[1] Source: *55th Annual Survey of Profit Sharing and 401(k) Plans,* Profit Sharing/401(k) Council of America

Reference Point, our annual benchmark report on plan design, participant behavior, and industry trends, is now available online:
**troweprice.com/referencepoint**


### T. ROWE PRICE ANALYSIS: Large group of employees left on sidelines

Although the number of plans adopting automatic enrollment has increased by 24.9% since 2005, most plans still only use the feature for newly hired employees. This can leave a large number of eligible employees on the sidelines.

In addition, T. Rowe Price's research has shown that 90% of participants do not change their deferral rate from the original default. Nor does a higher deferral rate at enrollment lead to lower participation or below-default savings behavior.[2]

Finally, automatic increase is a necessary component of any well-designed plan—because automatic enrollment by itself (with a historically low default deferral) could potentially decrease the average savings rate in a plan.

[2] Source: T. Rowe Price

As a result, T. Rowe Price suggests you advise your clients to:

1. Adopt auto-enrollment for all eligible employees
2. Set or increase the initial default deferral rate beyond 3%
3. Utilize auto-enrollment in conjunction with auto-increase

## MAKING IT YOUR OWN: Tips for developing an effective pitch

Now that you've got the raw material, how do you use it to your best advantage? Bring it to life using these proven sales techniques:

**Remember a few key statistics and facts**

- For example, cite the fact that nearly 46% of plans use auto-enrollment, and the most common default is 3%.

**Pose provocative questions**

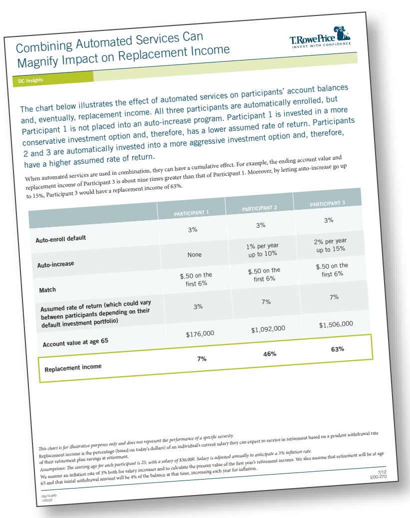
- Start the conversation by asking, "Did you know implementing auto-enrollment can decrease the average savings rate in a plan (because the typical default rate is only 3%)?"

**Be able to respond to objections**

- *Typical objection*: Employees won't participate if the default rate is too high.
  *Response*: Research shows that participation rates remain high even with plans that have up to 6% initial deferral default rates.

**Present a compelling visual example**

- Bring along a copy of our one-page piece, "Combining Automated Services Can Magnify Impact on Replacement Income" (troweprice.com/dc).



Combining Automated Services Can Magnify Impact on Replacement Income

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DC Insights

The chart below illustrates the effect of automated services on participants' account balances and, eventually, replacement income. All three participants are automatically enrolled, but Participant 1 is not placed into an auto-increase program. Participant 1 is invested in a more conservative investment option and, therefore, has a lower assumed rate of return. Participants 2 and 3 are automatically invested into a more aggressive investment option and, therefore, have a higher assumed rate of return.

When automated services are used in combination, they can have a cumulative effect. For example, the ending account value and replacement income of Participant 3 is about nine times greater than that of Participant 1. Moreover, by letting auto-increase go up to 15%, Participant 3 would have a replacement income of 63%.

| | PARTICIPANT 1 | PARTICIPANT 2 | PARTICIPANT 3 |
|---|---|---|---|
| Auto-enroll default | 3% | 3% | 3% |
| Auto-increase | None | 1% per year up to 10% | 2% per year up to 15% |
| Match | $.50 on the first 6% | $.50 on the first 6% | $.50 on the first 6% |
| Assumed rate of return (which could vary between participants depending on their default investment portfolio) | 3% | 7% | 7% |
| Account value at age 65 | $176,000 | $1,092,000 | $1,506,000 |
| Replacement income | 7% | 46% | 63% |

*This chart is for illustrative purposes only and does not represent the performance of a specific security.*

Replacement income is the percentage (based on today's dollars) of an individual's current salary they can expect to receive in retirement based on a prudent withdrawal rate of their retirement plan savings at retirement.

*Assumptions: The starting age for each participant is 25, with a salary of $30,000. Salary is adjusted annually to anticipate a 3% inflation rate.*

We assume an inflation rate of 3% both for salary increases and to calculate the present value of the first year's retirement income. We also assume that retirement will be at age 65 and that initial withdrawal amount will be 4% of the balance at that time, increasing each year for inflation.

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## YOUR TURN: Drafting your pitch

Given what you've learned from this brief, how would you pitch these ideas to a client? Use the pitch below as a starting point, then make it your own with relevant stories, analogies, case studies, visuals, questions, etc.

Did you know that implementing auto-enrollment can decrease the savings rate in a plan? If your plan has an average savings rate of 5%, adopting auto-enrollment at 3% will drag that down.

The way you deploy automatic features is critical to creating better outcomes for your participants. For example, research shows that 46% of plans use auto-enroll, but only about 18% use it for all nonparticipants. Why are we leaving all of those employees behind?

Your pitch: